

February 5, 2017

## Annual Information Statements for the 2016 Tax Year

To help investors who file U.S. tax returns, Renaissance Investments will provide PFIC Annual Information Statements for Renaissance Investments Family of Funds in non-registered retirement savings accounts. For the full list of funds that will have a PFIC report, please see the table on the following page.

The PFIC Annual Information Statement allows investors to make the Qualified Electing Fund Election on their U.S. tax returns. The Qualified Electing Fund Election allows for long-term capital gains to be taxed at more favourable rates and helps to avoid interest penalties.

The PFIC Annual Information Statement for Renaissance Investments Mutual Funds is available at the fund level rather than the individual account level. To file a Qualified Electing Fund Election, investors need the PFIC Annual Information Statement for each fund they own, plus their account statements for the appropriate tax year.

U.S. investors in Renaissance Investments should consult with a U.S. tax advisor on their Qualified Electing Fund Election option and for assistance in preparing the required reporting forms to include with their U.S. tax returns.

### FUNDS WITH 2016 PFIC REPORTING

#### Money Market Funds

Renaissance Canadian T-Bill Fund

#### Fixed Income Funds

Renaissance Canadian Bond Fund  
Renaissance Global Bond Fund  
Renaissance High-Yield Bond Fund  
Renaissance Real Return Bond Fund  
Renaissance U.S. Dollar Corporate Bond Fund  
Renaissance Corporate Bond Fund (formerly Renaissance Corporate Bond Capital Yield Fund)  
Renaissance Floating Rate Income Fund  
Renaissance Short-Term Income Fund

#### Balanced Funds

Renaissance Canadian Balanced Fund  
Renaissance Optimal Income Portfolio  
Renaissance Optimal Conservative Income Portfolio  
Renaissance Optimal Growth & Income Portfolio  
Renaissance U.S. Dollar Diversified Income Fund

#### Equity Income Funds

Renaissance Canadian Dividend Fund  
Renaissance Canadian Monthly Income Fund  
Renaissance Diversified Income Fund  
Renaissance High Income Fund (formerly Renaissance Millennium High Income Fund)

#### Canadian Equity Funds

Renaissance Canadian Core Value Fund  
Renaissance Canadian Growth Fund  
Renaissance Canadian All-Cap Equity Fund  
Renaissance Canadian Small-Cap Fund

#### U.S. Equity Funds

Renaissance U.S. Equity Fund  
Renaissance U.S. Equity Growth Fund  
Renaissance U.S. Equity Growth Currency Neutral Fund  
Renaissance U.S. Equity Value Fund  
Renaissance U.S. Equity Income Fund

#### Global Equity Funds

Renaissance Asian Fund  
Renaissance China Plus Fund  
Renaissance Emerging Markets Fund  
Renaissance European Fund  
Renaissance Global Focus Fund  
Renaissance Global Focus Currency Neutral Fund  
Renaissance Global Growth Fund  
Renaissance Global Growth Currency Neutral Fund  
Renaissance Global Markets Fund  
Renaissance Optimal Global Equity Portfolio  
Renaissance Optimal Global Equity Currency Neutral Portfolio  
Renaissance Global Small-Cap Fund  
Renaissance Global Value Fund  
Renaissance International Equity Fund

#### Specialty Funds

Renaissance Optimal Inflation Opportunities Portfolio  
Renaissance Global Health Care Fund  
Renaissance Global Infrastructure Fund  
Renaissance Global Infrastructure Currency Neutral Fund  
Renaissance Global Real Estate Fund  
Renaissance Global Resource Fund  
Renaissance Global Science & Technology Fund

## Q&A: Passive Foreign Investment Company (PFIC) Rules

### 1. Who are U.S. persons?

The definition of a U.S. person for U.S. income tax purposes is broad and generally includes U.S. residents, U.S. citizens, U.S. green card holders, other persons with a substantial connection to the U.S. and certain entities organized in the U.S. (such as U.S. domestic corporations). It should also be noted that U.S. citizens and green card holders are considered U.S. persons regardless of their country of residence. Some Canadian residents are unaware that they have U.S. tax filing requirements, including Canadian citizens who are also U.S. citizens through birth or ancestry.

### 2. What is a PFIC?

A PFIC (Passive Foreign Investment Company) is a non-U.S. corporation that has:

- 75% or more of its gross income that consists of passive income, or
- 50% or more of the average fair market value of its assets that produce passive income or that produce no income (such as cash)

Passive income includes, among other things, dividends, interest, capital gains from the disposition of securities and certain types of rents and royalties.

Special U.S. tax rules apply to U.S. persons who own PFICs; these rules have existed since 1986.

In 2010, the Internal Revenue Service (IRS) issued a clarification that Canadian mutual funds are classified as corporations for U.S. tax purposes. As such, units of most Canadian mutual funds are considered PFIC shares and are subject to the PFIC rules.

### 3. How do PFIC rules work?

U.S. persons who own PFIC shares must report each PFIC investment annually on a separate IRS form (Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund). Investors and advisors must complete Form 8621 for each Canadian mutual fund owned. The annual reporting requirement also applies to indirect holdings of PFIC shares (e.g., where a U.S. person owns shares of a Canadian mutual fund using a fund-of-fund(s) structure, meaning that in turn, it holds shares of another Canadian mutual fund). The U.S. person must file Form 8621 to report holdings of each indirectly held Canadian mutual fund.

There are three taxation methods available to U.S. persons with holdings of PFIC shares – the Excess Distribution Method, the Mark-to-Market Election, and the Qualified Electing Fund Election.

#### 1. Excess Distribution Method (default)

Under the Excess Distribution Method, tax on PFIC income and gains in excess of 125% of the average distributions from the PFIC over the previous three years is payable at the highest ordinary income rate. This applies for income attributed to years prior to the year of disposition or income receipt with no long-term capital gains treatment. Payment of tax is deferred to disposition. Gains are assumed to be earned consistently over the time the PFIC shares are held and deferred tax is subject to compound interest charges. This is the default method applied for PFIC shares unless the taxpayer makes either the Mark-to-Market Election or Qualified Electing Fund Election.

#### 2. Mark-to-Market Election

Under the Mark-to-Market Election, tax is paid as if the gain or loss in fair market value of PFIC shares is determined as ordinary income with the shares being sold at the end of the period. This inclusion of income to the U.S. person correspondingly affects their U.S. tax basis in the PFIC shares.

#### 3. Qualified Electing Fund Election

Under the Qualified Electing Fund Election, investors must, on an annual basis, include their pro-rata share of the mutual fund's earned income and capital gains for U.S. tax purposes. A PFIC Annual Information Statement is required to make a Qualified Electing Fund Election.

Please note that T3 and T5 slips issued by Canadian mutual funds report income earned for Canadian tax purposes and not income earned for U.S. tax purposes. As such, a Qualified Electing Fund Election made using T3 or T5 slips is not valid and the "Excess Distribution Method" may consequently continue to apply to holdings of such funds.

### 4. Which of the three options is better for the investor? Excess Distribution Method, Mark-to-Market Election or Qualified Electing Fund Election?

Investors should consult with their financial advisor or a U.S. tax specialist to make this decision, as the preferred method will vary in each investor's particular case (and possibly for each PFIC or Canadian mutual fund they hold). You must also take into account factors such as the amount of distributions; the length of the investor's holding period, and the appreciation or depreciation in the fund's value over the investor's holding period. However, generally speaking:

- the Excess Distribution Method (the default method) is the least favourable;
- the Mark-to Market Election is straightforward, but not otherwise advantageous; and
- the Qualified Electing Fund Election is generally the preferred method because it most closely aligns with the tax treatment of mutual fund investments by both the U.S. and Canadian tax systems.

#### **5. How do these rules affect different types of accounts, such as non-registered accounts, TFSAs and RRSPs?**

These rules affect investments in non-registered accounts, TFSAs and RESPs. Renaissance Investments will not provide Annual Information Statements for PFICs held in retirement savings accounts such as RRSPs and RRIFs, as we believe that the PFIC rules are not applicable. However, Renaissance Investments recommends that investors speak with a U.S. tax specialist.

#### **6. Will the PFIC Annual Information Statements be provided for the 2016 tax year?**

The Renaissance Investments elected a tax year for U.S. tax purposes to start on July 1, 2015 and end on June 30, 2016. U.S. persons with U.S. tax years ending on December 31, 2016 may make a Qualified Electing Fund Election with respect to such funds for the funds' year that ended on June 30, 2016. This period is deemed acceptable by the Internal Revenue Service (IRS). Investors should consult with their U.S. tax specialist to understand how this impacts their tax reporting.

#### **7. Why is PFIC reporting provided at the fund level, rather than the individual account level?**

Renaissance Investments decided to offer PFIC reporting at the fund level so that investors have all of the information they need to file more tax-efficient Qualified Electing Fund Elections for the 2016 tax year.

#### **8. How can I get my PFIC Annual Information Statement?**

You can visit the Renaissance Investments website or contact Renaissance Client Services at 1-888-888-3863.

#### **9. When will PFIC Annual Information Statements be available?**

PFIC Annual Information Statements will be available online by March 31, 2017.

#### **10. How do I calculate my account level PFIC factors for the Qualified Electing Fund Election?**

For each PFIC, your U.S. tax preparer requires the following:

- The PFIC Annual Information Statement for the fund provided by Renaissance Investments
- Your account statements for the tax year provided by your investment dealer

The PFIC Annual Information Statement will provide the pro-rata share of the fund's ordinary earnings and net capital gain per unit per day.

To calculate your individual amounts for a Qualified Electing Fund Election, multiply the number of unit days you held the fund by the pro-rata amounts on the Annual Information Statement.

To calculate the number of unit days, multiply the number of units held by the number of days the units were held for the tax year. For example, an account that held 1000 units of a fund for the full year (July 1, 2015 to June 30, 2016, 366 days), the number of unit days would be  $1000 \times 366 = 366,000$ . If those units were held for 181 days (July 1, 2015 to December 28, 2015), the number of unit days would be  $1000 \times 181 = 181,000$ . This value would then be multiplied by the pro-rata values on the Annual Information Statement and reported on IRS Form 8621.

If the number of units changes over the course of the year, the unit days calculation should be adjusted accordingly. For example, consider an account that starts the year with 1000 units then, 66 days into the year, another 1000 units are purchased (increasing the total number of units to 2000). If no other changes are made for the remaining 300 days of the year, the unit days calculation would be:  $(1000 \text{ units} \times 66 \text{ days}) + (2000 \text{ units} \times 300 \text{ days}) = 666,000 \text{ unit days}$ .

The PFIC Annual Information Statement will provide the per unit amounts distributed by the Fund.

To calculate your individual amounts for a QEF election, multiply the number of units you held of the Fund series by the per unit amounts provided.

For help with these calculations, Renaissance Investments suggests that investors consult with a qualified U.S. tax professional.

#### **11. Can clients still request a previous year's PFIC Annual Information Statement?**

Yes, clients can request a PFIC Annual Information Statement for the previous reporting year by contacting Renaissance Client Services at 1-888-888-3863.